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Headline: Job openings for independent directors as firms scramble to meet 2024 deadline

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Some 462 directors may have to leave or surrender their independent status to comply with a new nine-year tenure limit set by SGX

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WITH 20.9 per cent of more than 2,200 independent directors having served on the boards of Singapore-listed companies for more than nine years, these companies may soon be scrambling to replace these 462 independent directors in their upcoming annual general meetings (AGMs). This is to comply with a new nine-year tenure limit set by the Singapore Exchange Regulation (SGX RegCo).

While the proportion of long-serving independent directors has gone down in 2022 compared with 24.6 per cent in 2020, there is still a significant number who will be affected by the new ruling. It has already come into effect, though the regulator has allowed those who have already exceeded the term limit to continue to be considered independent until the company's AGM is held for the financial year ending on or after Dec 31, 2023.

Among companies that have been listed for more than nine years, the proportion of long-serving independent directors is even higher at 24.9 per cent, based on the latest *Singapore Directorship Report* released by the Singapore Institute of Directors (SID) on Wednesday (Oct 18).

"That means one-quarter of your independent directors in companies that are listed for more than nine years – that pool will have to turn over," said Singapore Institute of Technology accounting professor Ho Yew Kee, who presented the findings of the report on Wednesday.

"So this is one of the early warning signals that we need to send basically to all the companies – you have to start looking at your succession plan, because come next year... everyone will be scrambling to look for an independent director. Alternatively, you can do musical chairs," added Prof Ho.

The report, which is typically published once every two years, reviews the state of directorship in Singapore. The 2023 report – its fifth edition – examined the corporate filings and annual reports for the financial year ended on Dec 31, 2022, of 650 companies listed on the SGX.

Besides data on board tenures, the report also found that the level of disclosures of directors' and chief executives' remuneration have not changed much since the 2021 report.

The latest report showed that 37.5 per cent of all SGX-listed companies made detailed disclosures on remuneration as well as in bands, a slight decline from 38.3 per cent previously.

Listed companies performed even worse in disclosing the remuneration of their chief executive officers in detail.

Out of 439 CEOs who are also company directors, the study found that only 25.5 per cent of companies had detailed disclosures of their CEO's remuneration. Close to 60 per cent of companies disclosed their CEO's remuneration in bands.

Given the lack of progress in remuneration disclosures, Victor Yeo, associate professor of business law at Nanyang Technological University's business school, said it is timely that SGX RegCo is making remuneration disclosures mandatory.

"Disclosure is still a major issue, and we can understand why, after so many years of cajoling, pushing, encouraging and saying this is good, we have now come to the stage where it is going to be made mandatory for directors and CEOs," said Prof Yeo, who also presented the findings on Wednesday.

The latest *Singapore Directorship Report* shows that 37.5 per cent of all SGX-listed companies made detailed disclosures on remuneration as well as in bands, a slight decline from 38.3 per cent previously.
PHOTO: HENG YIN YIN, ZB

Following a public consultation in October last year, SGX RegCo made the decision to mandate that listed companies disclose the exact amount and breakdown of the remuneration paid to their CEOs and directors in their annual reports for the financial years ending on or after Dec 31, 2024.

The frontline regulator also removed the two-tier vote mechanism that allows companies to retain long-serving independent directors who have served for more than nine years. This effectively curbs their term limit, as they would have to be redesignated as non-independent directors if they choose to remain on the board after nine years.

The two-tier system required those serving more than nine years to surrender their independent status unless they are approved through two tiers of voting.

Sharing the rationale behind the removal of the two-tier system, SGX RegCo's head of listing compliance June Sim, who spoke at a panel discussion at the report's launch, said there were still 239 issuers with long-serving independent directors on their boards in 2022 – a number which she said was "quite glaring".

When she checked the data on Wednesday, that figure had not improved, as directors have been taking advantage of the two-tier vote mechanism.

She also noted that there are 43 companies with three or more long-serving independent directors, out of which 38 are small-cap companies and mainly listed on the Catalist board.

"So for small-cap companies, it's going to be a mad rush. As regulators, we will engage their sponsors to make sure that these Catalist-issuers take action now," she said.

SGX RegCo's chief executive officer Tan Boon Gin said that nominating committees of companies' boards need to step up their succession planning and take into account the requirements on board diversity.

While female directors made up almost 25 per cent of independent director appointments since board diversity disclosures were mandated in 2022, a figure which Tan said is encouraging, he added that more needs to be done in view of the many seats soon to be up for renewal.

As for companies' hesitancy in disclosing remuneration, Prof Yeo highlighted that the oft-cited reasons are the fear of poaching and potential escalation of directors' and CEOs' salaries.

While Prof Ho said these concerns are legitimate, mandatory disclosures improve transparency, openness and trust. To guard against potential implications once remuneration is made public, such as unhappiness over salary discrepancies between employees and CEOs as well as directors, he said companies need to be able to defend the level of compensation they are offering to the board and management.

In fact, Sim said companies listed here have benefited from the "very, very slow progress" on remuneration disclosures.

"Other markets are looking at disclosures of clawback arrangements and penalties. And here, our Singapore companies are still resting on their laurels in terms of not disclosing remuneration," she added.